

Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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FM AMEMBASSY ACCRA
TO SECSTATE WASHDC 9276

C O N F I D E N T I A L SECTION 1 OF 2 ACCRA 5638

E.O. 11652: GDS
TAGS: ECON, PINT, PGOV, GH
SUBJ: NEW COMMISSIONER FOR FINANCE OUTLINES PLANS

REF: ACCRA 5538

1. SUMMARY: NEW COMMISSIONER FOR FINANCE APPIAH
TOLD AMBASSADOR JULY 22 THAT IN ACCORD WITH IMF
RECOMMENDATIONS NEW BUDGET WOULD ATTEMPT ELIMINATE
DEFICIT ON CURRENT ACCOUNT AND MAKE STRONG EFFORT TO
CONTROL INFLATION. COMMISSIONER ALSO INTENDS
CONTINUE MOVES TOWARD FREER ECONOMY, PUSH EXPORTS,
REVAMP CUSTOMS DUTIES AND INCOME TAX COLLECTIONS.
HE FORESEES NO IMMEDIATE DEVALUATION AND HOPES GHANA'S
FRIENDS WILL UNDERSTAND THIS NOT POSSIBLE AT PRESENT
TIME. END SUMMARY.

2. ACCOMPANIED BY DCM HOLMES, I CALLED ON NEW
COMMISSIONER FOR FINANCE DR. A.K. APPIAH
JULY 22 FOR A TOUR D'HORIZON PRIOR TO MY DEPARTURE
FOR U.S. FOLLOWING WEEK. I TOLD HIM I KNEW PEOPLE
IN WASHINGTON WOULD BE MOST INTERESTED IN HIS PLANS
FOR MEETING GHANA'S DIFFICULT FINANCIAL SITUATION,
ESPECIALLY IN LIGHT OF IMPORTANT NEW REFORMS ANNOUNCED
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BY HIM JULY 14 (REFTEL). DESPITE OBVIOUS HEAVY
PRESS OF BUSINESS (NEW BUDGET IS DUE TO BE
ANNOUNCED WITHIN NEXT FEW DAYS), DR. APPIAH WELCOMED
MY CALL AND INDICATED HE HAD HOPED TO REQUEST SUCH
A MEETING ON HIS OWN AS SOON AS POSSIBLE. HE
OBVIOUSLY KEEN TO HAVE HIS THINKING KNOWN BY US
AND OTHER TRADITIONAL FRIENDS TO WHOM HE LOOKS FOR

CONTINUING SYMPATHETIC ASSISTANCE IN MEETING GHANA'S ECONOMIC/FINANCIAL CRISIS.

3. IN DISCUSSING NEW BUDGET, DR. APPIAH STATED HE STRONGLY HOPES TO ELIMINATE DEFICIT ON CURRENT ACCOUNT, LEAVING DEFICIT FINANCING ONLY FOR CAPITAL EXPENDITURES. WHOLE THRUST WILL BE SERIOUSLY TO TACKLE INFLATION, WHICH HE VIEWS AS A KEY PROBLEM, AND CONTINUE MOVING TOWARD FREER ECONOMY WITH CONSTANTLY DIMINISHING GOVERNMENT CONTROLS "WHICH HAVE SIMPLY NOT WORKED." HE DEVOUTLY HOPES THIS WILL MAKE MORE CONSUMER GOODS ONCE AGAIN AVAILABLE, EVEN THOUGH INITIALLY AT HIGHER COSTS. COMMISSIONER WILL COUPLE THIS WITH A DETERMINED EXPORT DRIVE, AS INDICATED IN HIS JULY 14 STATEMENT.

4. IN ADDITION, DR. APPIAH IS DETERMINED TO RECTIFY GROSS "IMPERFECTIONS" IN ECONOMY WHICH, IN HIS VIEW, CRY OUT FOR REFORM. HE PLANS, FOR EXAMPLE, VASTLY TO INCREASE REVENUE FROM CUSTOMS DUTIES THROUGH ELIMINATION OF NUMEROUS UNJUSTIFIED SPECIAL CONCESSIONS WHICH HAVE MULTIPLIED OVER THE YEARS, THROUGH REVAMPING OF TARIFF CLASSIFICATIONS AND COMPUTERIZING COLLECTIONS TO ELIMINATE NUMEROUS PRESENT OPPORTUNITIES FOR LEAKAGE. SIMILARLY HE PLANS THOROUGH SHAKE-UP OF INCOME TAX SYSTEM WITH CONFIDENTIAL

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ESTABLISHMENT OF UNIFORM RATES ACROSS THE BOARD AND GREATLY ENHANCED COLLECTONS.

5. THROUGH SUCH MOVES, APPIAH HOPES CORRECT OBVIOUS IMPERFECTIONS, INCREASE GOVERNMENT'S REVENUES AND IMPROVE GENERAL ECONOMY. ONCE THAT IS DONE, POSSIBILITY OF DEVALUATION MAY BE CONSIDERED, BUT HE EMPHASIZED ANY SUCH MOVE MUST BE APPROACHED IN GRADUAL STAGES, NOT IN DRASTIC OVERNIGHT DEVALUATION AS IN 1971 WHICH HAD SUCH CATASTROPHIC EFFECTS. IN HIS VIEW HE IS PROCEEDING IN ACCORD WITH THE RECENT IMF XIV CONSULTATION RECOMMENDATIONS BY SEEKING TO BRING INFLATION UNDER CONTROL. LIBERALIZING ECONOMY AND REDUCING BUDGET DEFICIT. HE IS NOT DEVALUING CURRENCY AND HOPES IMF AND OTHERS WILL RECOGNIZE THAT THIS IS IMPOSSIBLE AT THIS TIME: HE DOES NOT PRECLUDE GRADUAL DEVALUATION AT A LATER DATE AFTER HIS OTHER REFORMS MAKE SUCH A MOVE MORE FEASIBLE. HE ESTIMATES THAT GHANA MAY NEED SOME DOLS 200 MILLION TO TIDE OVER ITS ATTEMPTS TO DE-REGULATE THE ECONOMY AND SINCERELY HOPES THAT IMF AND TRADITIONAL FRIENDS MAY BE FORTHCOMING. APPIAH

IS CONSIDERING SUGGESTING A VISIT IN AUGUST BY AN IMF REP (SPECIFICALLY G.B. TAPLIN WHO HEADED TEAM EARLIER THIS YEAR) AND IN ANY EVENT PLANS ATTEND IMF MEETING IN SEPTEMBER WHERE HE WILL DISCUSS GOG'S NEW ECONOMIC PROGRAM.

6. FOLLOWING ABOVE DISCUSSION, I ASKED DR. APPIAH WHETHER HE COULD COMMENT ON THE APPARENT LACK OF ADEQUATE RETURN TO GHANA FROM CURRENT COCOA SALES. IN VIEW OF PRESENT VERY HIGH PRICES, MANY OBSERVERS FELT THAT GHANA SHOULD BE GAINING CONSIDERABLY MORE FROM COCOA SALES THAN IS APPARENTLY THE CASE: WAS FORWARD SALES THE REASON FOR THIS GAP AS SOME HAVE SUGGESTED? DR. APPIAH REPLIED THAT ALTHOUGH FORWARD
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SALES ACCOUNTED FOR SOME OF THE GAP, IT BY NO MEANS WAS THE WHOLE REASON. WITH UNUSUAL FRANKNESS FOR SUCH A HIGH OFFICIAL, HE THEN BLUNTLY STATED THAT "THIEVERY" WAS THE MAIN CAUSE, A CONDITION WHICH SIMPLY MUST BE CORRECTED. HE ADDED THAT RECENT HEAVY EMERGENCY FOOD PURCHASES, WHICH OFTEN HAD TO BE MADE SUDDENLY WITHOUT COMPETITIVE BIDS, ETC., WERE ALSO

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C O N F I D E N T I A L SECTION 2 OF 2 ACCRA 5638

TO BLAME FOR GHANA'S LACK OF FOREIGN EXCHANGE. SOME SUPPLIERS TOOK ADVANTAGE OF GHANA'S CRITICAL NEEDS

TO GOUGE THE GOVERNMENT.

7. I THANKED THE NEW COMMISSIONER FOR HIS FRANK COMMENTS AND SAID I WOULD PASS THEM ON TO INTERESTED OFFICIALS DURING MY FORTHCOMING CONSULTATIONS IN THE U.S. BEFORE LEAVING I ALSO TOOK THE OPPORTUNITY OF RAISING THE REMITTANCES PROBLEM AS IT AFFECTS AMERICAN FIRMS AND, INDEED, GHANA'S GENERAL STANDING AND REPUTATION OVERSEAS. AS ONE EXAMPLE, I REFERRED SPECIFICALLY TO THE QUESTION OF THE GOG'S PROCEEDING WITH THE REMITTANCE AGREED TO SOME TIME AGO FOR PANAM WHICH SHOULD BE TRANSMITTED BY THE END OF THIS MONTH. I EXPRESSED THE HOPE THAT THE GOG COULD FIND MEANS OF MEETING THIS COMMITMENT AND IN ADDITION MAKE AT LEAST TOKEN PAYMENTS TO OTHER FIRMS AS A MEANS OF IMPROVING ITS IMAGE ABROAD. WHILE MAKING NO COMMITMENT DR. APPIAH CLEARLY UNDERSTOOD MY POINT AND INDICATED HE WOULD DO HIS BEST IN DEALING WITH THE REMITTANCE PROBLEM (LATER THE SAME DAY, TO LOCAL PANAM REP INFORMED THE EMBASSY THAT THE REMITTANCE HAD JUST BEEN APPROVED).

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8. COMMENT: DCM AND I WERE IMPRESSED WITH THE VIGOR, FORTHRIGHTNESS AND CONFIDENCE EXHIBITED BY THIS KEY NEW GOG OFFICIAL. IT IS CLEAR THAT HE IS ALREADY ON TOP OF HIS JOB AND IT APPEARS THAT THUS FAR AT LEAST HE HAS BEEN ABLE TO CARRY THE SMC WITH HIM IN INITIATING URGENTLY NEEDED REFORMS. BUT IT IS LIKEWISE CLEAR THAT THIS IS ONLY A BEGINNING. HE WILL NEED CONTINUING FIRM SUPPORT FROM THE SMC AND GENERAL ACHEAMPONG FOR FUTURE EXTREMELY DIFFICULT POLITICAL DECISIONS IF GHANA IS TO OVERCOME ITS PRESENT CRITICAL ECONOMIC SITUATION. WHETHER OR NOT SUCH SUPPORT WILL CONTINUE REMAINS TO BE SEEN.
SMITH

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